



TESTIMONY OF I. CURTIS PRICE

FOR

THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 96-137-W/S

IN RE: TEGA CAY WATER SERVICE, INC.

Q. MR. PRICE, WOULD YOU PLEASE STATE YOUR NAME,
BUSINESS ADDRESS AND OCCUPATION?

A. My name is Curtis Price. My business address is 111
Doctor's Circle, Columbia, S.C. and I am employed by
the Public Service Commission of South Carolina as a
Utilities Accountant.

Q. WOULD YOU PLEASE STATE YOUR EDUCATIONAL BACKGROUND
AND YOUR EXPERIENCE?

A. I received a B.A. Degree in Business Administration
from Wofford College in 1964. Since 1956, I have had
40 years experience in public and private accounting.
I am a Certified Public Accountant and a member of
the American Institute of Certified Public
Accountants and the South Carolina Association of
Certified Public Accountants.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY INVOLVING
TEGA CAY WATER SERVICE, INC?

1 A. The purpose of my testimony is to present, in summary
2 form, the findings and recommendations of the PSC
3 Accounting Staff concerning the present docket. The
4 findings and recommendations are set forth in the
5 report of the Commission Staff.

6 Q. MR. PRICE, I AM HANDING YOU A DOCUMENT. WOULD YOU
7 IDENTIFY IT, PLEASE?

8 A. This is the Staff Report, with attached exhibits,
9 titled "Commission Staff Report, Public Service
10 Commission of South Carolina, Tega Cay Water Service,
11 Inc., Docket No. 96-137-W/S.

12 Q. WAS THIS REPORT PREPARED UNDER YOUR SUPERVISION?

13 A. The portion under the "Accounting Department" tab
14 was; the rest was prepared by the Staff's Utilities
15 Department.

16 Q. WOULD YOU PLEASE EXPLAIN THE REPORT?

17 A. As evidenced by the index in Staff's report, the
18 first 6 pages contain the report analysis. The
19 remaining pages consist of exhibits which were
20 prepared concerning various aspects of the Company's
21 operations and financial position. The majority of
22 these exhibits are used in summary form on Exhibit
23 AC, which is entitled Operating Experience, Rate
24 Base, and Operating Margin - Combined Operations.
25 My testimony will, therefore, be keyed to this

1 exhibit, found on page 7 of the report as it relates
2 to the Company's normalized year for both water and
3 sewer operations, combined, before and after the
4 requested increase.

5 **Q. WOULD YOU EXPLAIN THE FORMAT OF EXHIBIT AC?**

6 A. Column (1) shows the combined water and sewer
7 operations, per filing, for the test year with
8 specific emphasis on total income for return.

9 Column (2) shows the Staff's accounting and pro forma
10 adjustments designed to normalize the Company's per
11 combined operations.

12 Column (3) shows Staff's computation of the Company's
13 combined operations after accounting and pro forma
14 adjustments.

15 Column (4) shows Staff's calculation of the Company's
16 requested rate increase along with Staff's expense
17 effects.

18 Column (5) details Staff's computation of the
19 expected results of the Company's operations, on a
20 combined basis, after effect is given to the
21 requested increase.

22 **Q. WOULD YOU DISCUSS THE ADJUSTMENTS IN COLUMN 2?**

23 A. Some of the adjustments fall under the responsibility
24 of the Staff's Utilities Department and are to be
25 testified to by Mr. Creech. These are marked with a

1 (U). Other adjustments are marked with an (A) and
2 are the responsibility of the Accounting Department.
3 My testimony will deal directly with the accounting
4 adjustments where the Accounting Staff differs from
5 the Company.

6 The first of these adjustments includes, revenues and
7 expenses, the cost of purchased water which was
8 passed directly to the customers. The Company
9 recorded all charges to customers as credits in
10 Company Account No. 501.1, entitled "purchased
11 water", an operating and maintenance expense account.
12 Payments to York County for purchased water were
13 recorded as debits in this same account. This
14 account, at the end of the test year, December 31,
15 1995, retained a residual credit balance of \$9,824.
16 The Accounting Staff also noted that this account
17 showed a credit balance in eleven of the twelve
18 months of the test year. Such credit balances ranged
19 from a high of \$14,353 in January to a low of \$9,824
20 in December. June, 1995 was the only month showing a
21 debit balance of \$13,916. Such credit balances
22 indicate that the Company has tended to charge more
23 to the customers than the Company paid for water.
24 The Accounting Staff realizes that the intent of the
25 purchase and sale of water is that of a

1 "pass-through". The Company did not intend to profit
2 from the purchase and sale of water. Staff
3 respectfully recommends that the proceeds from the
4 purchase and sale of water be recorded in an
5 operating revenue account, and the cost of purchased
6 water continue to be recorded as an operating
7 expense. This recommendation is made in accordance
8 with the standard chart of accounts for water
9 companies and with generally accepted accounting
10 principles.

11 The Accounting Staff proposes to increase water
12 revenue for the charges to customers shown in this
13 account (\$313,449), and to increase cost of purchased
14 water to the amount shown as debits for the cost of
15 purchased water (\$303,624). Staff has also increased
16 the gross receipts taxes and uncollectibles.

17 The second Staff adjustment removes non-operating
18 revenue, such as non-operating interest and rents,
19 from operating revenue (\$1,469).

20 The third adjustment removes the costs, accumulated
21 depreciation, CIAC, related expenses, and taxes for
22 wells considered surplus, and not used or useful in
23 the conduct of the Company's operations. Staff
24 acknowledges that the wells are to be used as backup
25 in the case of problems with water supply from York

1 County. It is Staff's position that the cost of
2 maintaining these wells should be the responsibility
3 of the stockholders of Utilities, Inc.

4 and not the ratepayers. Mr. Creech of the
5 Commission's Utilities Department will offer further
6 testimony on this subject.

7 Staff's fourth adjustment eliminates nonallowable
8 expenses discovered during the Accounting Staff's
9 audit process. Such expenditures include association
10 dues and expenses not allowed for ratemaking
11 purposes.

12 **Q. WOULD YOU DESCRIBE THE RESULTS OF EXHIBIT AC?**

13 A. According to the Company's filing, which Staff has
14 shown in column (1), the Operating Margin, after
15 deducting annualized interest expense of \$104,782, is
16 calculated to be a (4.62%). Staff's accounting and
17 pro forma adjustments reduce the negative Operating
18 Margin after interest to (1.34%).

19 Staff calculates the proposed increase would grant
20 the Company an 11.54% combined Operating Margin after
21 interest.

22 **Q. WOULD YOU PLEASE ELABORATE ON THE REMAINING EXHIBITS?**

23 A. Exhibits AW and AS contain the same data as Exhibit
24 AC but deal strictly with the water operations
25 (Exhibit AW) and sewer operations (Exhibit AS).

1 Exhibits AC-1, AW-1, and AS-1 detail the adjustments,
2 including those above described. Exhibits AW-1 and
3 AS-1 break down the adjustments to show the
4 allocation to water and sewer operations,
5 respectively.

6 Exhibit A-2 shows Staff's calculation of customer
7 growth using the Commission's standard formula.

8 Exhibit A-3 details the Staff's computation of the
9 Company's allowance for cash working capital using
10 the "standard formula" method. The Commission, in
11 the past, has allowed a standard 45 days, or 12.50%
12 of allowable operating, maintenance, general, and
13 administrative expenses as an addition to rate base
14 to provide for a return on the cash necessary to
15 provide proper service. There have been several ways
16 of computing this allowance proposed to the
17 Commission.

18 One of these alternatives is derived from what is
19 described as "lead-lag". Lead-lag is a cash flow
20 study which purports to precision in that it accounts
21 for the dollar value of the net lead or lag resulting
22 from operations actually experienced by the Company
23 during the test year. It is a complex process and is
24 subject to differences of opinion as to which
25 accounts should be included and how any lead or lag

1 is to be counted. In addition it suffers from the
2 disadvantage of rewarding poor cash management as it
3 does not make a judgment on the Company's cash
4 management efficiency. If the Company has poor cash
5 management, lead-lag has a definite tendency to
6 reward such behavior, while efficient cash management
7 is punished. This is just the opposite of efficient
8 regulation. Another alternative is called the
9 "working capital method" and is derived by computing
10 working capital according to standard accounting
11 methodology (current assets minus current
12 liabilities) and deriving a cash working capital
13 allowance. Such a computation is counterproductive,
14 penalizing needy companies having negative working
15 capital while cash-rich companies are rewarded.
16 Accounting Exhibit A-4 shows the Company's per book
17 Income Statement for the test year and Exhibit A-5
18 shows the Company's per book Balance Sheet at
19 December 31, 1995.

20 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

21 **A. Yes, it does.**
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